

SUBCOMMITTEE No. 1

EDUCATION

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K-12 EDUCATION

6110 Department of Education

California's public education system is administered at the state level by the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education, and is responsible for the education of approximately 6.4 million students enrolled in kindergarten through 12th grade. The primary goal of the Superintendent and the CDE is to provide policy direction to local school districts and to work with the educational community to improve academic performance.

At the local level, K-12 education is the responsibility of 989 school districts, 58 county offices of education, and approximately 9,220 schools. Nearly 306,000 teachers are employed in public schools statewide.

Total K-12 Funding (All Funds)

The 2006-07 Governor's Budget proposes \$66.2 billion in total funding for K-12 education, which reflects an increase of \$4.1 billion (6.6 percent) above the proposed 2005-06 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, and federal) totals \$10,996 in 2006-07, an increase of \$660 above the \$10,336 per-pupil rate in 2005-06.

Table 1				
K-12 Summary, All Funds				
(dollars in thousands)	2005-06 Revised	2006-07 Proposed	\$ Change	% Change
General Fund*	\$36,071,900	\$40,014,200	\$3,942,300	10.9
Local Property Taxes	12,092,000	12,223,600	131,600	1.1
Lottery Fund	1,021,800	1,021,800	0	0.0
Other State Funds	125,100	145,800	20,700	16.5
Federal Funds	7,456,000	7,469,200	13,200	0.2
Local Debt Service	1,499,900	1,499,900	0	0.0
Local Miscellaneous	3,855,400	3,855,400	0	0.0
Total Funds	\$62,122,100	\$66,229,900	\$4,107,800	6.6
Per Pupil Funding	\$10,336	\$10,996	\$660	

* General Fund includes Proposition 98 and Non-98 Funds, including STRS; G.O. Bond Debt Service; State Library; & Scholarshare Investment Board.

As indicated by Table 1, the \$66.2 billion for K-12 education includes \$40.0 billion (60.4 percent) from the state General Fund; \$17.6 billion (26.5 percent) in property taxes and other local revenues; \$7.5 billion (11.3 percent) in federal funds, \$1.0 billion (1.5 percent) in state lottery funds and \$145 million (0.2 percent) in other state funding.

As proposed, the total General Fund (Prop 98 and Non-98) increases by \$3.9 billion (10.9 percent) and local property taxes increase by \$131.6 million (1.1 percent). Other state funds increases by \$20.7 million (16.5 percent). The budget also reflects a small increase of \$13.2 million (0.2 percent) in federal funds, although this figure will be updated at May Revise to reflect new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill (P.L. 109-149) and the government-wide rescissions bill (P.L. 109-148) for federal fiscal year 2006 that were both signed by the President on December 30, 2005.

Proposition 98

Total Proposition 98 funding for K-14 education in 2005-06 is proposed at \$50.0 billion, an increase of \$2.9 billion (6.1 percent) over the revised 2004-05 budget. According to the Administration, the \$50.0 billion meets the Proposition 98 minimum funding guarantee in 2005-06. In meeting the minimum guarantee, the Administration uses Test 2 factors applied to the 2004-05 funding base, as currently budgeted.

The \$2.9 billion increase in Proposition 98 funding in 2005-06 is covered primarily by an increase in state General Funds. As indicated in Table 2, Proposition 98 General Fund revenues increase by \$2.4 billion (7.1 percent) and local property taxes grow by \$475.9 million (3.7 percent).

Table 2					
K-14 Proposition 98					
Summary (dollars in thousands)	2004-05	2005-06	2006-07 Proposed	\$ Change	% Change
<i>Distribution of Prop 98 Funds</i>					
K-12 Education	\$42,122,787	\$44,627,177	\$48,356,408	3,729,231	8.4
Community Colleges	4,792,007	5,242,136	5,848,062	605,926	11.6
State Special Schools	41,509	42,567	43,177	610	1.4
Dept. of Youth Authority	35,858	45,780	42,589	-3,191	-7.0
Dept. of Developmental Services	10,672	10,217	9,995	-222	-2.2
Dept. of Mental Health	8,400	13,400	13,400	0	0
Am. Indian Education Centers	4,476	4,698	4,322	-376	-8.0
Total	\$47,015,709	\$49,985,975	\$54,317,953	\$4,331,978	8.7
<i>Prop 98 Fund Source</i>					
State General Fund	\$33,994,860	\$36,310,868	\$40,455,466	\$4,144,598	11.4
Local Property Taxes	13,020,849	13,675,107	13,862,487	187,380	1.4
Total	\$47,015,709	\$49,985,975	\$54,317,953	\$4,331,978	8.7
K-12 Enrollment-ADA*	5,982,000	6,010,000	6,023,000		
K-12 Funding per ADA*	\$7,042	\$7,428	\$8,052	\$660	8.9
* Average Daily Attendance					

As indicated in Table 2, the Governor proposes \$54.3 billion in Proposition 98 spending for K-14 education in 2006-07, which reflects a \$4.3 billion or 8.7 percent increase over the revised 2005-06 budget. Of this total, \$48.4 billion is appropriated for K-12 schools and \$5.8 billion is for Community Colleges. The K-12 share of Proposition 98 funding increases by 3.7 billion (8.4 percent) and the Community Colleges share increases by \$605.9 million (11.6 percent).

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 13,000 in the budget year, an increase of 0.2 percent over the revised current-year level. Average per-pupil Proposition 98 funding is estimated to be \$8,052 in 2006-07, an increase of \$660 (8.9 percent) over the \$7,428 per pupil funding in 2005-06.

Governor's Strategic Growth Plan for Education

The Governor is proposing a comprehensive 20-year plan to rebuild California's infrastructure system, which includes K-12 and higher education, as well as transportation, air quality, water, public safety, courts and other public service infrastructures. The Governor's Budget Summary lays out the first 10 years of a 20-year investment plan for the state. Specifically, the Governor proposes \$68.0 billion in infrastructure investments that would be financed through General Obligation (GO) bonds. Of this amount, \$38.0 billion would be dedicated to improving and expanding education facilities -- \$26.3 billion for K-12 education and \$11.7 billion for higher education. The Governor's 10-year infrastructure plan for education is summarized below.

Summary of Governor's Education Facility Bond Proposal

(in billions)

	2006* (K-16)	Nov. 2008 (K-12)	Nov. 2010 (K-16)	Nov. 2012 (K-16)	Nov. 2014 (K-12)	Total Proposed
K-12 Education						
New Construction*	\$1.7	\$3.0	\$2.0	\$1.7	\$1.0	\$9.4
Modernization*	3.3	1.2	2.2	2.4	3.1	12.1
(Small High Schools) *	(.500)	(.420)	(.500)	(.407)	(.407)	(2.2)
Charter Schools	1.0	0.0	0.5	0.5	0.5	2.4
Career-Technical Education	1.0	0.0	0.5	0.5	0.5	2.4
Total K-12 Education	\$7.0	\$4.2	\$5.1	\$5.0	\$5.0	\$26.3
Higher Education						
UC/Hastings**	\$1.9	\$0.0	\$1.0	\$1.2	\$0.0	\$4.2
CSU	1.7	0.0	0.8	1.2	0.0	3.8
CCC	1.7	0.0	0.8	1.2	0.0	3.8
Total Higher Education	\$5.4	\$0.0	\$2.6	\$3.7	\$0.0	\$11.7
Total Bond Proposal	\$12.4	\$4.2	\$7.7	\$8.7	\$5.0	\$38.0

* Regularly scheduled election.

** Authorizes up to \$2.2 billion in new construction and modernization funds over the ten year period for Small High Schools.

*** Requires \$200 million from both 2006 and 2010 bond for UC to be used for capital improvements to expand/enhance medical education programs with an emphasis on telemedicine.

The Governor proposes that the Legislature approve the entire 10-year state infrastructure plan as a single package, although individual bond measures would be scheduled to appear before voters

over a series of elections from 2006 through 2014. The Governor's education bond proposals for the 2006 ballot are currently contained in two bills – SB 1164 (Runner) and AB 1836 (Daucher). The Governor proposes to combine K-12 and higher education bond measures on the same ballot, although the 2008 and 2014 bonds would include K-12 bonds only.

Budget Year Highlights

Overall Funding Increase. The Governor proposes a total of \$48.4 billion in Proposition 98 funding for K-12 schools in 2006-07, an increase of \$3.7 billion (8.4 percent) above the 2005-06 budget. As proposed, the budget provides \$8,052 per-pupil in Proposition 98 funding in 2006-07, an increase of \$660 (8.9 percent) per-pupil above the 2005-06 budget.

Growth and COLA Fully Funded. The Governor proposes to spend **\$2.3 billion** to fully fund K-12 enrollment growth and cost-of-living adjustments (COLA) in 2006-07, as follows:

- **Enrollment Growth.** The budget provides **\$156.0 million** to fully fund statutory enrollment growth for apportionments and categorical programs. The budget provides \$67.4 million for revenue limit apportionment growth (includes \$13.2 million increase for declining enrollment districts); \$14.8 million for child care development; \$6.5 million for special education; and \$67.3 million for all other categorical programs. The budget estimates K-12 ADA growth of 0.21 percent.
- **Cost-of-Living Adjustments (COLAs).** The budget provides **\$2.3 billion** to fully fund statutory COLAs for K-12 revenue limit and categorical programs. This provides a 5.18 percent COLA for revenue limits (\$1.66 billion); special education (\$161.6 million); child care and development (\$70.2 million); and various other categorical programs (\$392.0 million) that either require a COLA pursuant to state statute or that traditionally receive a COLA.

Deficit Factor Payments. The Governor's Budget proposes an additional **\$205 million** to pay down the revenue limit deficit factor to compensate for revenue limit reductions (overall reduction of 1.2 percent and foregone COLA of 1.8 percent) that originated in the 2003-04 budget. (This restores approximately two-thirds of the outstanding deficit factor.) The 2004-05 budget appropriated \$270 million as partial payment of the deficit factor obligation; the 2005-06 budget appropriated an additional \$406 million. This proposal provides another \$205 million bringing the deficit factor to 0.299 percent for school districts (\$200 million) and 0.106 percent for county offices of education (\$5 million). Under the Governor's proposal, the outstanding deficit factor obligation would total approximately \$100 million.

Revenue Limit Equalization. The Governor proposes a **\$200 million** increase in funding to equalize school district revenue limits. Revenue limits are calculations intended to provide the same level of general purpose funding to school districts and county offices of education. However, some differences in revenue limit funding levels exist because of historical factors. The Administration proposes to continue the recent methodology to level up lower revenue limit districts until the state achieves equity for 90 percent of the state's ADA by size (large and small districts) and type (unified, high school, and elementary). (Some extremely high revenue limit districts would continue to receive higher revenue limit.) The Administration estimates that the

additional \$200 million would move the state half way to fully meeting the state's equalization target. The Governor's proposal does not include revenue limit equalization for county offices of education. The 2004-05 budget appropriated \$110 million for revenue limit equalization, using the same calculations now being proposed by the Governor.

Proposition 98 Reversion Funds. The Governor proposes appropriating **\$213.6 million** in one-time funds in 2006-07 from the Proposition 98 Reversion Account for a variety of programs. Several of these proposals will be discussed further below and include the following:

- \$106.6 million for the Schools Facilities Emergency Repair program pursuant to the *Williams* settlement agreement as articulated by Chapter 899, Statutes of 2006;
- \$63.7 for CalWorks Stage 3 child care adjustments;
- \$18.7 million for prior-year state obligations for K-12 mandate claims and interest;
- \$9.6 million for the Teacher Credentialing Block Grant to fund an additional 2,600 teachers in the Beginning Teacher Support and Assessment system in the current year;
- \$9 million for the Charter Schools Facility Grant program established by Chapter 892, Statutes of 2001. No charter school would be allowed to receive funds in excess of 75 percent of annual lease costs.
- \$3 million for a county office of education to contract with an outside agency to recruit highly qualified teachers to schools in the lowest three deciles of the 2004 Academic Performance Index. This funding is related to the School Enrichment Block Grant program funded in the 2005-06 budget.
- \$1.1 million for the purpose of funding the Chief Business Officer Training Program established pursuant to Chapter 356, Statutes of 2005.
- \$1 million for Principal Training Program, established by Chapter 697, Statutes of 2001. This program has been renamed the Administrator Training Program.
- \$500,000 for high school coaches training pursuant to Chapter 673, Statutes of 2005. Funding shall be allocated on the basis of 2004-05 high school enrollment data with variable grant levels based upon school size;
- \$39,000 to pay for reimbursable mandate claims costs relating to attendance accounting per Chapter 855, Statutes of 1997.

Annual Mandate Payments. The Governor proposes to provide **\$133.6 million** to cover the annual costs of mandated education programs for K-12 school districts and county offices of education and for community colleges in 2006-07. The Governor's proposal reverses the practice in recent years of deferring or suspending annual mandate payments to achieve short term budget savings. Mandated costs for K-12 schools are estimated at approximately \$175 million a year by the Department of Finance; the Legislative Analyst's Office estimates annual costs closer to \$250 to \$300 million a year. Under the Governor's proposal, if \$133.6 million is insufficient to cover all eligible claims for the year, the amount allocated to K-12 schools and community colleges will be prorated by the State Controller.

Prior-Year Mandate Payments. The Governor also proposes to provide **\$151.7 million** in one-time funds – \$18.7 million from the Proposition 98 reversion account and \$133 million in Proposition 98 settle-up funds – to pay for prior year education mandate claims. The \$133 million in settle-up funds would be allocated to K-12 school districts and county offices of education on the basis of payment for the oldest claims first. It is not clear how the \$18.7 million would be allocated for prior-year claims. The Legislative Analyst’s Office estimates that the cumulative costs for unpaid, prior-year claims will total \$1.46 billion for K-12 schools and community colleges by the end of 2005-06. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account.

New or Expanded Program Initiatives. The Governor’s *Budget Summary* proposes **\$413 million** for K-12 schools to expand several programs that were funded for the first time in the 2005-06 budget and to provide funding for several additional, new programs in 2006-07. These proposals include:

- **Recruiting and Retaining Qualified Teachers and Principals.**
 - ✓ **School Enrichment Block Grants.** The Governor proposes **\$100 million** for School Enrichment Block Grants for school districts and charter schools to support the recruitment and retention of teachers and principals in schools in the lowest three deciles of the Academic Performance Index (API). This block grant program was funded with up to \$49.5 million in one-time funds in the 2005-06 budget. The Governor proposes to continue and expand this program in 2006-07. Funding is proposed at the rate of \$50 per pupil with minimum school site grants of \$5,000. Funding can be expended for the general purposes of improving the school environment and culture, and may include: assuring a safe and clean environment; forgiving student loans for teachers and administrators; and providing differential pay, signing bonuses, housing assistance and professional development for teachers and administrators.
 - ✓ **Beginning Teacher Support and Assessment (BTSA).** The Governor proposes **\$65 million** to establish a third year of BTSA funding for beginning teachers serving in schools ranked in the lowest three deciles of the API. As proposed, the additional year of induction support would emphasize diagnostic student assessments, differentiated instruction, classroom management, and parental involvement. First priority for funding would be provided for new teachers in their third year of teaching. New teachers would receive the full rate of funding (\$3,865). Second priority would be for more experienced teachers who are new to decile 1-3 schools and who volunteer to participate in the program. More experienced teachers would receive funding at half the full rate (\$1,933).
- **Arts and Music Block Grant for K-8 Schools:** The Governor proposes **\$100 million** to provide an Arts and Music Block Grant to K-8 schools in school districts, county offices of education and charter schools. The new block grant would provide funding for standards-aligned Fine Arts instruction (art, dance, music, theater/drama) for students in elementary and middle schools. Funding is proposed at a level of \$20 per pupil, with minimum grants of \$3,000 for schools with 10 or fewer students and \$5,000 for schools with more than 10 students. Funding may be used for a variety of purposes to further standards-aligned arts and

music including hiring additional staff; purchasing of new materials, books, supplies and equipment; and providing staff development.

- **Addressing Childhood Obesity/Improving Physical Education in K-8 Schools:**

- ✓ **Physical Education Block Grant.** The Governor proposes **\$60 million** in physical education block grants to school districts and charter schools for the purpose of increasing physical activity and implementing standards-based physical education programs in elementary and middle schools. Funding will provide minimum grants of \$3,000 for schools with 10 or fewer students and \$5,000 for schools with 11 to 420 students. All remaining funds will be allocated, on an equal per pupil basis, to school sites with more than 420 students. Funding may be used for hiring qualified staff, reducing class size, and providing standards-aligned professional development and curricula.

- ✓ **Physical Education Teacher Incentive.** The Governor proposes **\$25 million** to provide incentive grants to 1,000 elementary and middle schools to hire credentialed physical education teachers. Incentive grants would provide \$25,000 per school site, which would be selected randomly with considerations for school type, size, and location. Physical education is typically provided by teachers with a Multiple Subjects Credential in elementary school. This incentive program is intended to increase the number of teachers with physical education credentials on elementary school and middle school campuses.

- **Digital Classroom Grant Program.** The Governor proposes **\$25 million** to provide one-time Digital Classroom Block Grants to school districts and charter schools to advance the effective use of educational education technology in order to improve classroom instruction and student achievement. Each school district or charter will receive \$3,000 per eligible classroom. As a condition of funding, school districts and charter schools are required to develop a plan, which must be approved by their governing board, specifying how funds will be used in eligible schools. The Superintendent of Public Instruction will allocate statewide funds to locally prioritized schools in school districts of different sizes and types within each of the state's 11 California Technology Assistance Project regions. Funding is provided on a one-time basis for individual schools; however, the Department of Finance anticipates that annual appropriations for the program will continue until all classrooms in the state have received funding. Funding can be used for one-time expenditures including computer hardware or software, staff development or other technology related expenditures that improve classroom instruction.

- **Student Assistance for Passage of the California High School Exit Exam (CAHSEE):** The Governor proposes to provide an additional **\$20 million** to provide intensive instruction and services to assist eligible 12th grade students pass the CAHSEE in 2006-07. This proposal doubles the \$20 million in new funds provided for the program in 2005-06, as established by Chapter 234, Statutes of 2005. Intensive instruction and services may include hiring additional teachers, individualizing instruction, providing teacher training, and offering individual or small group instruction. Eligible pupils are defined as 12th graders in the graduating class of 2006 who have not passed one or both sections of the CAHSEE. The

current program allocates \$600 per eligible pupil. Additional funds proposed in the budget provide a higher level of funding - \$631 per student – and allow additional eligible students to be served, including students in the graduating class of 2006 and 2007. The current program gives funding priority to schools with the highest proportion of students who have not passed CAHSEE. The Governor’s budget-year proposal establishes separate rankings for comprehensive high schools and all other high schools in determining funding priority, setting aside \$35 million for students in comprehensive high schools and \$5 million for students in continuation, juvenile court, county community day, adult education and alternative schools.

- **Providing Fruits and Vegetables to Schools:** The Governor proposes **\$18.2 million** in ongoing funding for the California Fresh Start Pilot Program, as established by Chapter 236, Statutes of 2005. This program supplies “nutritious” fruits and vegetables to K-12 schools by providing an additional 10 cents for school meals that include one or two servings of fruits and/or vegetables. Funding is available for schools in school districts and charter schools. Total funding for the program is tied to the number of school breakfast meals served by schools. The 2005-06 budget included \$18.2 million in one-time funds for this pilot program.
- **Career-Technical Education:** The 2005-06 budget provided \$20 million for a new program to improve and expand career-technical education courses at high schools, regional occupational centers and the California Community Colleges. The Governor proposes an additional **\$30 million** for this program – established in Chapter 352, Statutes of 2005 – bringing total funding to \$50 million in 2006-07. This new program links K-12 and community college programs with the goal of improving pathways to the workforce and higher education. Under what is referred to as the “2 plus 2” program, students spend two years in secondary education programs that are articulated with two year programs at the community colleges. *Funding for the Career Technical Education program is included in the Community Colleges budget. (See Community Colleges below.)*

Federal Carryover Funds for School and District Accountability. The Governor proposes to appropriate **\$82 million** in federal carryover funds for low performing schools and districts identified as needing “program improvement” under the federal No Child Left Behind (NCLB) Act. The Administration is working with the California Department of Education on the development of a specific proposal that would utilize these one-time funds to increase student achievement in Program Improvement schools and districts. The Legislature appropriated these carryover funds back to their originating programs in the 2005-06 budget when the total carryover amount equaled \$74.5 million. Subsequently, the Governor eliminated funds for these purposes and set the funds aside for a new program to assist low-performing schools and districts, to be determined through future legislation. The amount of federal carryover has now grown to \$82 million from the following programs: \$24.3 million for Title I-Basic Grants; \$22.2 million for Title I-School Improvement; \$19.2 million for Title I-Migrant Education; and \$16.1 million for Title V-Comprehensive School Reform.

Charter Schools Categorical Block Grant: The Governor provides a **\$36 million** increase in funding for the charter school categorical block grant as a baseline adjustment to implement statutory funding reforms enacted pursuant to Chapter 359, Statutes of 2005. This augmentation

reflects a \$400 increase in the categorical block grant level – the first of two increases required by the new statute. The rate will increase to \$500 per ADA in 2007-08.

K-12 High Speed Internet Network. The Governor does not provide funding for the K-12 High Speed Internet Network in 2006-07, but does maintain the program item in the budget. Provisional budget language for that item states that budget decisions for the program will be made pending the result of the audit currently being conducted by the Joint Legislative Audit Committee (JLAC). The 2005-06 budget eliminated \$21 million in new funding that the Administration proposed for the K-12 High Speed Network and instead authorized funding at the same level from unused funds previously appropriated for Internet connectivity and network infrastructure for grades K-12 schools and county offices of education. Expenditure of these funds was conditioned on commencement of the JLAC audit.

Special Education Adjustments. There are no major adjustments to the special education program in 2006-07 other than statutory growth and COLA, which provides an overall increase of **\$168.1 million** – \$6.5 million for growth (0.21 percent) and \$161.6 million for COLA (5.18 percent). The Governor projects a very small increase in federal funds – **\$15.9 million** – based upon early estimates of limited new federal funding to states. This amount may need to be adjusted downward at May Revise to reflect the actual decline in federal special education grants to states contained in the final Labor/HHS/Education appropriations bill for FFY 2006. The Governor continues **\$52.6 million** in funds provided in the 2005-06 budget for any one-time special education purposes, including assistance to students with disabilities to pass the High School Exit Exam and instructional materials.

Special Education – Mental Health Related Services. The Governor maintains **\$100 million** in special education funding for mental health related services in 2006-07 budget. This continues \$69 million for AB 3632 services provided by county mental health agencies and \$31 million for pre-referral services for children and youth with exceptional needs. The Governor proposes to continue allocation of these funds to SELPAs on a per ADA basis.

State Operations – Special Education Due Process Deficiency. The Governor proposes **\$4.5 million** in General Fund (Non-Proposition 98) to cover additional contract costs for administration of the statewide special education due process program in the current year. The due process program is required by federal law, and provides mediations and fair hearings to resolve disputes among parties. Special education due process services have been contracted out to a private provider since 1989 in California. The contract is currently being transitioned from this private provider to the Department of General Services, Office of Administrative Hearings. The budget currently provides \$10.1 million in federal special education funds to the Department of Education for the contract. The Governor is seeking an increase of \$4.5 million (45 percent) to cover unanticipated transition costs for the current contract. The Governor is seeking one-time funding through Budget Item 9840-001-0001 of the 2005-06 budget to cover this deficiency.

Major Issues

Proposition 98 Funding Level and Priorities. Some of the most difficult questions the Legislature faces this year is how set the level of funding for Proposition 98 in 2006-07 given the educational needs and priorities for K-12 education and available state revenues.

The Governor proposes a **\$4.3 billion increase** (8.7 percent) in Proposition 98 funds for K-12 school and community colleges in 2006-07. This assumes an overappropriation of **\$2.1 billion** to fund all proposed expenditures.

The Governor proposes an increase of **\$3.7 billion** (8.4 percent) for K-12 schools in 2006-07. Major adjustments and increases proposed by the Governor include:

- **Proposition 49 – After School Care: (\$426.2 million)**
- **Discretionary Funds: (\$2.7 billion)**
 - \$2.3 billion to fully fund K-12 enrollment growth and COLAs.*
 - \$205 million to reduce K-12 revenue limit deficits.*
 - \$200 million to partially equalize K-12 revenue limits.*
- **Funding for Annual Mandate Costs: (\$133 million)**
- **New/Expanded Categorical Programs: (\$413 million)**

In assessing the Governor's education package overall, the Legislature may want to consider the following issues and questions:

1. ***Discretionary v. Targeted Funding.*** The Governor proposes approximately \$2.7 billion in discretionary funding for K-12 education in 2006-07. In addition, the Governor proposes more than \$400 million in new or expanded program initiatives. What is the correct balance of discretionary funding, which provides general purpose funding to schools, versus more targeted funding that provides funds for specific purposes? General purpose funding gives local educational agencies flexibility in spending funds. Categorical funding provides funding for special groups of students, schools, purposes, etc. to reflect specific goals and priorities. In recent years, the Legislature and the Governor have acted to consolidate some categorical programs to simplify funding streams to schools. However, the Governor and Legislature have established new programs to address new issues, such as CAHSEE assistance funds for students and improvement and expansion of career-technical education. How can these interests be balanced in the proposed budget?
2. ***Reducing Existing Obligations v. Expanding/Funding New Programs.*** The Legislative Analyst has identified nearly \$1.8 billion in K-14 education funding obligations it refers to as on the "education credit card." These credit card debts include \$1.46 billion in cumulative mandate claims for K-14 education and \$290 million in revenue limit deficit factor payments. While the Governor proposes to buy down some of this debt in the budget year, the Governor

is also proposing more than \$400 million in ongoing funds for the expansion of several new programs and establishment of several other new programs in 2006-07. Should new programs be established before existing obligations are paid off?

3. ***One-Time v. Ongoing Funding.*** Nearly all of the Governor's proposed K-12 increases provide ongoing funding for ongoing purposes. In appropriating Proposition 98 funding in 2006-07 – especially appropriations above the minimum guarantee – what options exist for providing relief to education in the form of one-time funds? For example, payment of the \$1.46 billion in prior year mandate claims would provide additional funds for schools without creating ongoing budget pressures, eliminate existing debt (that the state pays interest on), and contribute additional funding for Proposition 98 settle-up.
4. ***Funding Allocations – Do They Reach Students, Schools & LEAs Equitably.*** New funds proposed by the Governor are allocated in a variety of different ways. Are these proposals delivering funds so that they actually reach students and schools? What can be done to assure that new funds follow students? Enrollment growth and COLAs are provided to school districts and county offices, as well as revenue limit deficit factor payments. As proposed, revenue limit equalization funds provide additional funding for an estimated 87 percent of school districts, based upon average daily attendance (not student enrollment) to reflect current attendance accounting practices; no funding is proposed for county offices of education. The Governor proposes to pay for prior-year claims based upon oldest claims first, and not some funding for all districts and county offices with claims. Some of the Governor's new initiatives are targeted to different types of schools – Enrichment Grants and BTSA funds are targeted to low-performing schools (API deciles 1-3) in school districts and county offices; arts and music grants are targeted to K-8 schools (not high schools) in school districts and county offices of education, (UC and CSU require, for admission purposes, one year of visual and performing arts); and PE grants are available to K-8 schools in school districts only. Digital classroom grants and Fruits and Vegetable funds are proposed for all K-12 schools – do these include state special schools and alternative schools as well? Charter schools are included in some, but not all proposals.

Williams Settlement – Emergency School Facilities: The Governor proposes \$107 million for emergency repairs of school facilities in school districts pursuant to the *Williams v. California* lawsuit settlement. Chapter 899, Statutes of 2004 (SB 6), which implements provisions of the *Williams* settlement agreement, requires that, commencing with the 2005-06 Budget Act, the state transfer at least \$100 million, or 50 percent of the unappropriated balance of the Proposition 98 Reversion Account – whichever is greater – to the emergency school facility repairs account. This level of funding must continue in the budget every year until the state has provided a total of \$800 million. The 2005-06 budget appropriated \$196.0 million for emergency school facility repairs pursuant to the *Williams* settlement; however, demand from school districts has been extremely low to date. Potential expenditures for this program currently total only \$1.7 million based upon applications received by the State Allocation Board. There is likely to be significant excess funding for this program in the current year, which raises serious questions about the level of funding required for the program, as currently structured, in the budget year.

Federal Funding Losses to California. Federal education funds to California are expected to be flat or decline somewhat for most federal education grants programs in 2006-07 and are not yet reflected in the Governor's proposed 2006-07 budget. Without other budget action, these reductions will result in a loss of important resources for state and local educational agencies in 2006-07. The Governor's budget estimates that California will receive nearly \$7.5 billion in federal funds for K-12 education in 2006-07, which reflects an overall increase of \$13.2 million above the 2005-06 level. The Governor will propose updated budget estimates for federal programs at May Revise to reflected new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill (P.L. 109-149) and the one-percent government-wide rescissions bill (P.L. 109-148) for federal fiscal year 2006 that were both signed by the President on December 30, 2005. While official estimates are not yet available for states, federal funds for most all education programs are expected to decline by at least one-percent. This is dramatic for some programs – such as special education and Title I grants for disadvantaged students – where significant annual increases have been the standard and provided valuable new funding to states and local educational agencies. Other programs are being cut more significantly, such as school improvement and innovations funding (NCLB Title I & V); educational technology; and safe and drug-free schools.

CAHSEE Assistance Funding. The graduating class of 2006 will be the first group of students in California that must pass the California High School Exit Exam (CAHSEE) in order to graduate from high school. Students begin taking the exam in 10th grade. The exam includes two tests – English Language Arts and mathematics. The latest figures from CDE indicate that approximately 20 percent of high school seniors have not passed the English language arts exam and 20 percent have not passed the mathematics exam. It is not known how many students have not passed either or both. While passage rates have been increasing for students planning to graduate in 2006, there are likely to be significant numbers of students who do not pass CAHSEE this spring. The Governor proposes \$40 million to provide intensive intervention to students in the graduating classes of 2006 and 2007 who have not yet passed the CAHSEE. The Governor proposes continuation of another \$52.8 million in special education funds that *may be* utilized to assist students with disabilities pass the CAHSEE. It is important to understand how these funds can be coordinated to provide intensive assistance to *all* eligible students. It is also important to know how the \$70 million appropriated in the current year for CAHSEE assistance has been utilized by schools and whether it has been effective in increasing passage rates. Was the level of funding provided appropriate for providing intensive services and how much would it cost to cover all eligible students in the state? For students who continue to fail, what obligations will schools have to continue education for these students? For example, under federal law, schools are obligated to serve special education students – the group with the highest proportion of students who have failed the CAHSEE – until students graduate or through 21 years of age.

Child Care Programs

Background. The state makes subsidized child care services available to (1) families on public assistance and participating in work or other activities conducive to employment; (2) families transitioning off public assistance programs; and (3) other families with exceptional financial need. Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the family's progress in transitioning from welfare to work.

Child care services under Stage 1 are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education. Families receiving Stage 2 child care services have been deemed "stable" and are either receiving cash assistance or are in a two-year transitional period after leaving cash aid.

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 eligibility or are deemed to have exceptional financial need (the "working poor"). Child care services for Stage 3 are divided into two tiers: General Child Care (which is delivered predominately through child care vouchers and child care centers) is available on a limited basis for families with exceptional financial need, while the Stage 3 Set-Aside makes child care slots available specifically for former CalWORKs recipients. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

2006-07 Child Care Highlights. The proposed 2006-07 budget contains a total of \$2.95 billion (both General Fund and federal funds) to provide child care services to CalWORKs recipients, former CalWORKs recipients, and the "working poor." Funding for After School Programs is excluded from this total and will be discussed separately.

Budget Issues

Unlike prior years, the Governor does not propose any programmatic reforms to the state's subsidized child care programs. The Governor's Budget does, however, call (via Budget Bill Language) for the Legislature, Administration, and State Department of Education to convene a workgroup to develop a new family fee schedule. The Governor's stated intent of convening the workgroup is to develop a new fee schedule that will offset costs derived from increasing the income eligibility threshold for families to participate in child care programs, while maintaining the total number of available child care slots. Specifically, the Budget Bill Language directs the workgroup to consider the use of alternative indexes for future income eligibility adjustments; reallocate funding from within the child care program to increase the Standard Reimbursement Rate; and review (semi-annually) child care contracts in order to maximize the expenditure of funds.

It is important to note that while not a "programmatic reform," the Administration makes a variety of caseload assumptions in the CalWORKs program which ultimately reduce the number of available child care slots by over 36,600. In the coming months, staff will be working closely

with the Administration (including the Department of Social Services) to reconcile these CalWORKS caseload estimates with the larger child care needs of the state.

After School Programs

Background. The state makes Before and After School Programs available to children statewide with funding provided by both the federal government (via the 21st Century Community Learning Centers Program) and the state General Fund. In the current year, the state is spending \$121.6 million General Fund to support After School Programs and the federal government is providing the state with \$180.9 million for a similar purpose.

2006-07 After School Program Highlights. In 2002, the voters approved Proposition 49 which has the effect of requiring the state to quadruple the amount of funding it expends on state-sponsored After School Programs. After several years of failing to meet the state General Fund revenue "trigger" contained in the initiative, the provisions of Proposition 49 will go into effect in the 2006-07 fiscal year. To meet this end, the Administration is proposing a \$426 million General Fund increase for these programs, bringing total state support to approximately \$547 million. Offsetting the increase in state funds, the Administration expects the federal government to decrease (by \$17 million) the amount of support it provides for the 21st Century Program.

In order to ensure that the additional After School funds are not shifted from elsewhere in the K-14 budget, the provisions of Proposition 49 require that the additional appropriation of \$426 million be over and above the minimum funding level guaranteed to K-14 education under Proposition 98; thereby building the Proposition 98 "base" by that amount in future years. It remains unclear if the Administration intends to count this "over-appropriation" toward the amount of Proposition 98 maintenance factor funds it "owes" schools and community colleges.

Budget Issues

It remains unclear what statutory or constitutional changes, if any, will need to be implemented to either the state's After School Program or Proposition 49 itself, in order to ensure that the additional funds are spent expeditiously and to the benefit of students statewide.

6120 California State Library

There are no budget changes proposed for the Public Library Foundation, which, under the Governor's proposal, will remain funded at \$14.4 million. This amount is significantly below the 2000-01 funding level for the program, which exceeded \$56.8 million. Funds from the Public Library Foundation are allocated to local libraries for general support, such as retaining library's hours of operation; book and material purchases; and outreach (bookmobile) services.

6360 California Commission on Teacher Credentialing

The Commission on Teacher Credentialing (CTC) is responsible for the following:

- Issuing credentials, permits, certificates and waivers to qualified applicants;
- Enforcing standards of practice and conduct for license applicants and holders;
- Developing standards and procedures for the preparation and licensure of school teachers and school service providers;
- Evaluating and approving teacher and school service provider preparation programs; and
- Developing and administering competency exams and performance assessments.

The CTC currently receives more than 230,000 applications annually for approximately 200 different types of credentials, emergency permits, and credential waivers.

Summary of Expenditures (dollars in thousands)				
	2005-06	2006-07	\$ Change	% Change
General Fund	\$2,700	\$0	-2,700	-100.0
General Fund, Proposition 98	\$31,814	\$31,814	0	0.0
Teacher Credentials Fund	12,253	14,754	2,501	20.4
Test Development & Adm. Account	3,751	4,627	876	23.4
Federal Trust Fund	0	0	0	0.0
Reimbursements	76	0	-76	-100.0
Total	\$50,594	\$51,195	\$601	1.2

Governor's Budget: The Governor's Budget proposes \$51.2 million for the CTC's budget in 2006-07, providing an overall increase of \$600,000. Of this amount, the Governor proposes to continue \$31.8 million from the General Fund (Proposition 98) to support three local assistance education programs administered by the CTC – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program.

The Governor proposes \$19.4 million from the two special funds that support the CTC's state operations, providing an increase of \$3.4 million. Specifically, the Governor proposes funding of \$14.8 million from the Teacher Credentials Fund and \$4.6 million from the Test Development and Administration Account in 2006-07.

Budget Year Highlights

Eliminate General Fund Backfill and Restore Special Fund Expenditure Authority. The Governor's Budget eliminates the \$2.7 million General Fund appropriation provided in 2005-06 to address an anticipated shortfall in special funds to support the CTC's state operations budget. The Administration provided these funds on a one-time basis. To offset this General Fund reduction, the Governor proposes to increase expenditures from the Teacher Credentials Fund and the Test Development and Administration Fund by \$2.7 million to reflect an increase in available fund balances.

Increase Special Fund Authority to Reflect the Proposed Increase in Central Services Costs. The Governor proposes to increase the expenditure authority of the Teacher Credentials Fund and the Test Development and Administration Fund by \$677,000 to reflect an increase in centralized services costs assessed to special fund agencies. These assessments cover support services provided by other state agencies.

Reduce Credential Processing Time. The Governor proposes to convert four high level positions in the Professional Services Division into seven technical positions in the Certification, Assignment and Waivers Division to reduce credential processing time and backlogs. The Governor also proposes that CTC submit quarterly reports to the Legislature, Legislative Analyst's Office, Office of the Secretary of Education, and Department of Finance on the status of the credentialing backlog. These reports should include information on the size of the current backlog as well as updated estimates as to when the backlog will be fully eliminated.

HIGHER EDUCATION

Overview of Governor's Compact with Higher Education. In the spring of 2004, the Governor developed a *compact* with the University of California (UC) and California State University (CSU) that calls for the Governor to provide the UC and CSU with a specified level of General Fund support, as part of his annual budget proposal. In exchange for this "guaranteed" level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. The Governor's 2004-05 Budget provides funding for UC and CSU pursuant to this agreement. Specifically, the *compact* contains the following provisions:

- *Affected Parties.* Compact is between Governor Schwarzenegger and the UC and CSU; the Legislature's compliance is not part of the agreement;
- *Time Period.* Compact is applicable to fiscal years 2005-06 through 2010-11;
- *General Support.* Beginning in fiscal year 2005-06 and 2006-07, Governor will provide 3 percent annual General Fund increases to cover cost-of-living-adjustments (COLA), salary, and other price increases. Thereafter (from 2007-08 to 2010-11) the Governor will provide increases of 4 percent annually.
- *Enrollment Growth.* Governor will provide funding for 2.5 percent enrollment growth annually for the duration of the compact. This equates to approximately 5,149 full-time equivalent students (FTES) at UC and 8,490 FTES at CSU.
- *Long-Term Funding Needs.* Beginning in 2008-09, through the end of the compact (2010-11), UC and CSU will also receive an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support, and building maintenance.
- *Student Fees.*

Undergraduate Fees. In an effort to better stabilize fees after the sharp increases of the past couple of years, UC and CSU retain the authority to increase student fees – but will limit undergraduate fee increases to 8 percent in 2005-06 and 2006-07. Thereafter, UC and CSU may increase fees up to 10 percent. While UC and CSU did indeed propose to increase fees by this agreed-upon amount, the Governor proposes "buying out" these increases with state General Fund.

Teacher Credentialing Fees. Fees will increase by no more than 10 percent annually; an 8 percent increase in fees is proposed by both UC and CSU in 2005-06.

Academic Graduate Student Fees. Academic graduate student fees will increase by 10 percent for both 2005-06 and 2006-07; thereafter, the UC and CSU will strive to achieve a fee level that is 50 percent higher than undergraduate fees in order to better reflect the higher cost of instruction. Fees will be adjusted annually (beginning in 2007-08) based on a variety of factors, including, the average cost of instruction; costs at comparable public institutions; market factors; state labor needs; and financial aid needs of graduate students.

UC Professional School Fees. UC will develop a student fee plan that adjusts fees annually based on such factors as: cost of attendance at comparable institutions; total cost of attendance; market factors; state labor needs; and financial aid needs. For the 2005-06 academic year, fees will be increased approximately 3 percent. (This small increase is intended to provide some respite after last year's hefty professional school fee hikes.)

Student Fee Revenues. UC and CSU will retain revenues derived from student fee increases (as opposed to offsetting the increase in fee revenues with a corresponding General Fund reductions, as the state has done in the past).

- **Accountability Measures.** In exchange for the Governor's funding commitment, the UC and CSU agree to the following:

Student Eligibility. Maintain enrollment levels consistent with the *1960 Master Plan for Education*, whereby UC accepts students who are among the top 12.5 percent of public high school graduates (statewide) and CSU accepts students who are among the top 33 percent of public high school graduates.

Community College Transfer Students. Both UC and CSU will continue to accept all qualified community college transfer students.

Community College Course Transfer. Both UC and CSU will increase the number of course articulation agreements, as they relate to academic "majors," with community colleges. In 2005, UC agreed to achieve major preparation agreements between all 10 UC campuses and all 108 community colleges, while CSU will establish major preparation agreements for each high-demand major with all 108 community colleges by June of 2006.

Summer Term/Off-Campus Enrollment Levels. By 2010-11, both UC and CSU will expand student enrollments in summer session and through off-campus offerings to a level equivalent to 40 percent of regular-term enrollments.

Academic Outreach Efforts. UC and CSU will remain committed to providing academic outreach to K-12 and community college students and institutions. UC agrees to provide at least \$12 million and CSU agrees to provide at least \$45 million to continue the most effective academic outreach programs.

A through G Course Offerings. Both UC and CSU will continue to review and approve courses that integrate academic and career/technical course content.

Public Service. UC and CSU agree to strengthen student community service programs.

Time to Degree. Both UC and CSU will maintain and improve, where possible, students' persistence rates, graduation rates, and time-to-degree.

Teacher Candidates. Both systems will place an increased emphasis on recruiting math and science students into the teaching profession.

OVERARCHING HIGHER EDUCATION ISSUES

Student Enrollment Growth (UC and CSU). Pursuant to the Governor's compact with UC and CSU, he proposes to fund enrollment growth equivalent to 2.5 percent, which is consistent with the enrollment projections of the UC and CSU. For UC, this equates to an increase of approximately 5,149 FTES and \$52 million; for CSU, enrollments are proposed to increase by approximately 8,490 FTES and \$57.7 million.

Included in the Governor's enrollment growth proposal is an alteration in the methodology used by the state to calculate the per student "marginal cost of instruction," which is the rate of funding provided by the state for each new student. Specifically, the Department of Finance and the Office of the Legislative Analyst were requested by the Legislature, pursuant to the *Supplemental Report of the 2005 Budget Act*, to convene a workgroup to examine possible changes to the marginal cost methodology. This request was spurred by a growing sense, both within the higher education segments and among legislators and staff, that the per-student rate has not kept pace with actual costs incurred by the institutions in educating students. Unfortunately, the workgroup was unable to reach an agreement on the specifics of the methodology. Included in the Governor's Budget is the Department of Finance's proposal of a new marginal cost methodology.

Budget Issues

While enrollment growth of 2.5 percent appears reasonable at this point in time, the Legislature will want to continue examining enrollment growth trends to ensure that funds allocated for this purpose are needed. Further, it remains unclear if the "marginal cost" methodology employed by the Department of Finance in constructing the Governor's Budget is the methodology that will accomplish the Legislature's funding objectives.

Student Enrollment Growth (Community Colleges). While the California Community Colleges do not have a "compact" with the Governor, he does provide \$148.8 million to fund enrollment growth of 3 percent throughout the community college system. These funds will allow colleges statewide to grow by an additional 35,000 FTES.

In recent years, the Legislature has consistently provided funding to support enrollment growth of approximately 3 percent. After several years of providing these augmentations, districts that previously had unfunded enrollments (because the colleges were over their enrollment "caps") are now fully-funded for the students they are educating, and colleges have continued to grow.

Budget Issues:

While the Legislature remains supportive of expanding access to higher education, it is unclear, at this point in time, if student demand for community college courses will be high enough to fully utilize the \$148.8 million proposed for this purpose in the budget year or the \$141.9 million provided for enrollment growth (3 percent) in the current year. Furthermore, the Legislative Analyst has expressed a similar concern citing that the amount of funding provided for current year growth appears to be far exceeding the amount of student demand at the community colleges.

General Campus Support. Consistent with the Governor's compact, his 2006-07 budget provides a General Fund, general support increase of 3 percent for both UC and CSU (including a 3 percent increase for the Legislative, Executive, and Judicial Fellows programs) totaling \$156.2 million (\$80.5 million to UC; \$75.7 million to CSU). These funds will be used to cover cost-of-living-adjustments (COLA), salary, and other mandatory cost increases.

Under the Governor's proposal, the community colleges also receive a statutory COLA of 5.18 percent which equates to \$280 million.

Student Fees. In 2004-05, the Governor proposed to establish a long-term student fee policy aimed at making fee increases regular, predictable, and modest. Rather than codifying his proposal, the Governor instead chose to integrate these student fee principles into his "compact" with UC and CSU. However, contrary to his compact, the Governor proposes "buying out" the previously agreed-upon 2006-07 fee increases for all UC and CSU students by providing the both segments with state General Fund dollars (totaling \$129.4 million) to replace the amount of student fee revenue that will be lost due to retaining fees at their current-year levels.

In explaining its proposal, the Administration sites the enormous fee increases for UC and CSU students beginning in 2003 and continuing through 2005. Intent on providing students and families with much-needed respite from these fee hikes, the Governor proposes his fee "buy out."

Specifically, the UC Board of Regents and the CSU Board of Trustees each approved student fee increases during their November 2005 governance board meetings, in accordance with the Governor's compact. Under the compact, and the actions of the governing boards, fees for undergraduates would have increased by 8 percent, while academic graduate students would have seen fee increases of 10 percent; UC professional school students were facing a 5 percent increase. (Actual fee levels will be illustrated in table form later in this chapter.)

Budget Issues

While the Administration's justification for "buying out" the proposed fee increases at UC and CSU is compelling, the Legislature must determine if the use of approximately \$130 million for this purpose is indeed its highest priority. In an environment where the Legislature consistently struggles to maintain health and human services programs for low-income, elderly, and disabled persons, there may be populations - other than college students - who could benefit from these funds instead. Furthermore, the Legislature may want to consider "buying down" a portion of the proposed fee increases rather than the full amount. For example, the Legislature could allow fees to increase 4 or 5 percent rather than the full 8 percent and then redirect the remaining funds for another purpose.

The Governor is not proposing a fee increase at the community colleges. Staff notes that like the UC and CSU, community college fees were increased dramatically in recent budgets: from \$11 to \$18 per unit in 2003-04 and then from \$18 to \$26 per unit in 2004-05. Fees in the current year remain constant at \$26 per unit – the same level as proposed for 2006-07.

Student Academic Preparation Programs. The Governor's Budget fails to provide any state support (General Fund) for either UC or CSU's Student Academic Preparation or Early Assessment Programs. This equates to a loss of \$24.3 million for these programs (\$17.3 million for UC and \$7 million for CSU). As part of last year's budget process, the UC convened a bipartisan working group of university, legislative, and Administration representatives to address the Administration's concerns with the various Academic Preparation programs. In light of the efforts undertaken by the Legislature and the higher education segments to resolve any outstanding issues, it is unclear why the Administration is proposing to eliminate state funding for these programs.

6440 University of California

The University of California (UC) was founded in 1868 as a public, state-supported land grant institution and was established constitutionally in 1879 as a public trust to be administered under an independent board, known as the Regents of the University of California. The Board of Regents consists of 20 members appointed by the Governor, one student member appointed by the Board, and seven ex officio members.

The original 1960 Master Plan for Education designates the University of California as the primary state-supported academic agency for research and instruction in the professional fields of law, medicine, dentistry, and veterinary medicine. The UC consists of ten campuses -- Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz -- which offer undergraduate, graduate, and professional education. UC Merced, which is located in the Central Valley, is the newest of the UC campuses and recently opened to students in the Fall of 2005. The University of California, San Francisco, is solely dedicated to the health sciences. In addition to its instructional facilities, the university operates teaching hospitals and clinics at the San Francisco and Los Angeles campuses, as well as operating the Sacramento, San Diego and Orange county medical facilities.

UC Merced. The new UC Merced campus opened to 875 FTES in the Fall of 2005 (with the goal of reaching 1,000 FTES by the end of the academic year) and expects to grow by 800 students annually through the 2010-11 academic year, for a total enrollment of 5,000 FTES. With these new students, the campus is now receiving enrollment funding totaling \$8.8 million; however, given that the Merced campus has not yet been able to achieve any "economies of scale" the campus still requires an additional appropriation from the state. For 2006-07, the Governor proposes to continue providing a total of \$24 million for the start-up costs associated with the Merced campus. These funds are used primarily to hire a core staff of administrators and faculty, continue developing curriculum, and recruit faculty. At present, the campus has 50 tenure-track faculty and 15 lecturers providing instruction in the current year.

Other 2006-07 Budget Changes. In addition to the budget changes discussed earlier in this document, the Governor continues (1) to deny state funding for research activities related to Labor Studies; (2) to provide funding for his new Math and Science Teacher Initiative in order to encourage UC to quadruple the number of teachers it trains in these particular disciplines; and (3) to provide \$1.7 million for a second year expansion of UC's Entry-Level Masters Degree Programs in Nursing.

Capital Outlay. The capital outlay portion of UC's budget includes \$458.3 million for 30 new projects, as well as the continuation of existing projects. Of this amount, \$315 million would be derived from the Governor's newly proposed Education GO Bond; \$116 million would be financed through lease-revenue bonds; \$17.8 million would come from UC funds; and \$9 million would be funded by the General Fund.

Student Fees. As discussed earlier, the Governor proposes to hold student fees constant at the current year level of \$6,802 for Undergraduate students and \$8,708 for Graduate students. Additional fees, which are assessed on students enrolled in graduate-level professional schools (law, medicine, dentistry, optometry, pharmacy, veterinary medicine, theater/film/TV), are also proposed to be held constant.

Fees for undergraduate students at the UC comparison institutions (the Universities of Michigan, Illinois, New York, and Virginia) averaged \$7,821 in 2005-06, which is \$1,019 higher than the 2006-07 proposed fee levels for UC resident undergraduates. Fees for graduate students at UC fell by approximately \$1,886, which was also significantly below those charged at its comparison institutions.

University of California Student Fees				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
1994-95	\$4,111	\$11,810	\$4,585	\$12,284
1995-96	4,139	11,838	4,635	12,334
1996-97	4,166	12,560	4,667	13,061
1997-98	4,212	13,196	4,722	13,706
1998-99	4,037	13,611	4,638	14,022
1999-00	3,903	14,077	4,578	14,442
2000-01	3,964	14,578	4,747	15,181
2001-02	3,859	14,933	4,914	15,808
2002-03	3,859	15,361	4,914	16,236
2002-03	4,017	16,396	5,017	16,393
(fees increased mid-year)				
2003-04	5,530	19,740	6,843	19,332
2004-05	6,312	23,268	7,928	22,867
2005-06	6,802	24,622	8,708	23,669
2006-07	6,802	25,486	8,708	23,669

Note: Actual fees may vary by campus depending on the particular level of campus-based fees. Data in the table include an *average* of the campus-based fees for the nine campuses.

Students in professional degree programs (i.e., medicine, dentistry, law, veterinary medicine, business) pay a supplemental fee, in addition to the fees noted above, that ranges from \$4,000 for

students in public health, public policy, or international relations to \$15,000 for students in business/management and law.

6600 Hastings College of the Law

Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and became affiliated with the University of California in the same year. Policy development and oversight for the college is established and carried out by a board of directors who are appointed by the Governor for 12-year terms. The juris doctorate degree is granted by the Regents of the University of California and signed by both the University of California President and the Dean of Hastings College of the Law.

2006-07 Budget Changes. While not explicitly included in the Governor's compact with higher education, the Administration opted to afford the provisions of the compact to Hastings College of the Law. Specifically, the budget provides Hastings with a 3 percent General Fund increase (\$253,000) for basic budget support. The effect of this increase will help mitigate some of the reductions faced by the college in recent years. While the compact also includes budget adjustments at UC and CSU to accommodate enrollment growth, Hastings enrollment levels are, and have remained, stable for a number of years thereby negating the need to fund growth.

Student Fees. After large fee increases of approximately 34 percent in the 2004-05 year, fee levels at Hastings remained relatively constant in 2005-06 with an increase of approximately \$2,000 for residents (\$22,297 total in the current year). Like UC and CSU, the Governor proposes to "buy out" the proposed fee increase of 8 percent that was previously approved by the Hastings Board of Directors at a cost of \$1.4 million. Instead of seeing their fees increase to slightly above \$24,000 a year, student fees will be held constant at the current-year level. Fees for nonresident students however, are proposed to increase from the current-year level of \$33,522 to \$34,497, representing a 2.9 percent increase.

6610 California State University

The California State University (CSU) system is composed of 23 campuses, including 22 university campuses and the California Maritime Academy. Administered and managed by an independent governing Board of Trustees, the CSU has achieved a high level of academic excellence through distinguished faculty and high-quality undergraduate- and graduate-level instruction. Each campus in the system is unique, with its own curriculum and character; however, all campuses require a basic "general education" breadth curriculum regardless of the institution or baccalaureate-level major of study. In addition to providing baccalaureate- and masters-level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators, and in limited circumstances, has the ability to jointly offer doctoral-level education with the University of California and private and independent institutions.

Other 2006-07 Budget Changes. In addition to the budget changes discussed earlier in this document, the Governor proposes (1) to provide funding (\$1.1 million) for his new Math and Science Teacher Initiative in order to encourage CSU to double the number of teachers it trains in

these particular disciplines; and (2) to continue providing \$1.7 million for a second year expansion of CSU's Entry-Level Masters Degree Programs in Nursing.

Student Fees. As discussed earlier, the Governor proposes to hold student fees constant at the current year level of \$3,164 for Undergraduate students and \$3,746 for Graduate students. Furthermore, nonresident tuition for out-of-state students is also proposed to remain constant at \$10,170 (above the amount paid by resident students).

Fees for undergraduate students at the CSU comparison institutions (including, Rutgers University, University of Maryland, State University of New York and Arizona State University, among others) averaged \$6,132 in 2005-06, which was \$2,968 more than the amount proposed for CSU resident undergraduates in 2006-07. Graduate student fee levels at CSU's comparison institutions were significantly higher, by over \$4,500 annually, than the amount charged by CSU for a graduate-level education.

California State University Student Fees				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
1994-95	\$1,584	\$8,964	\$1,584	\$8,964
1995-96	1,584	8,964	1,584	8,964
1996-97	1,584	8,964	1,584	8,964
1997-98	1,584	8,964	1,584	8,964
1998-99	1,506	8,886	1,584	8,964
1999-00	1,428	8,808	1,506	8,886
2000-01	1,428	8,808	1,506	8,886
2001-02	1,428	8,808	1,506	8,886
2002-03	1,428	9,888	1,506	9,966
2002-03	1,573	10,033	1,734	10,194
(fees increased mid-year)				
2003-04	2,572	11,032	2,782	11,242
2004-05	2,916	13,086	3,402	13,572
2005-06	3,164	13,334	3,746	13,916
2006-07	3,164	13,334	3,746	13,916

Note: Actual fees may vary by campus depending on the particular level of campus-based fees.

Capital Outlay. The capital outlay portion of CSU's budget includes \$370.1 million in funding (from all sources) to start 15 new projects and continue existing projects. Of this amount, \$234

million would be derived from the Governor's newly proposed GO Bond Measure; \$49.4 million comes from funds remaining from the 2004 Higher Education GO Bond; and \$86.7 million are university funds.

6870 California Community Colleges

The California Community Colleges system (CCC) provides a variety of general and vocational education programs at 108 community colleges throughout the state. The CCC offers academic programs that (1) emphasize transfer courses for students continuing their education at CSU, UC or other institutions of higher education, (2) provide vocational training to enhance the education of California's work force, and (3) offer courses to students who need or desire basic education courses. In addition, the CCCs are also charged with administering many of the state's economic development programs.

2006-07 Proposed Adjustments

Enrollment Growth. The Governor's 2006-07 budget proposes to provide \$148.8 million to fund a 3 percent (or 35,000 FTE) increase in student enrollment. While statute only calls for enrollment growth funding of 1.74 percent, this statutory index (which is tied to the change in the adult population) has traditionally failed to keep pace with actual student enrollment. Unlike prior years, when campuses were serving large numbers of unfunded students, it appears that funding provided for enrollment growth in the current year budget has not only accommodated those previously-unfunded students, but is perhaps exceeding the actual enrollment needs of the colleges. The total number of students enrolled in community colleges statewide is expected to exceed 1.2 million FTES.

Cost-of-Living-Adjustment. In addition to providing enrollment growth, the Administration proposes an additional \$280.4 million for a 5.18 percent COLA for both general campus apportionments (\$264.6 million) and specified categorical programs (\$15.8 million).

Technical and Vocational Education. The Administration proposes to augment the community colleges by a total of \$50 million to increase coordination between the colleges and their K-12 colleagues on industry-driven vocational and technical-career curriculum. In the current year, the Budget provides \$20 million on a one-time basis to begin this work. The Governor's proposal makes this \$20 million permanent and augments that amount by an additional \$30 million.

Equalization. The Governor proposes to appropriate \$130 million to remedy (or "equalize") disparities in the funding rates of community colleges statewide. This augmentation represents the third and final year of a three-year plan to equalize funding rates to the 90th percentile. Prior-year budget acts took initial steps to meet this end by providing \$110 for equalization.

Student Fees. No changes are proposed. Fee levels remain at \$26 per unit. At present, approximately 42 percent of community college students are eligible for Board of Governor (BOG) Student Fee Waivers; this represents a slight increase of 5 percent over the number of BOG waivers granted in 2002-03. The Administration believes that this percentage increase will likely remain constant in 2006-07.

Additional Augmentations.

- Additional dollars are proposed to augment services for Disabled Students (\$9.6 million) in order to support increased costs associated with sign language services and the real-time captioning of instructional materials for deaf and learning-disabled students;
- Governor proposes to provide an additional \$500,000 to support the CalPASS program which eases student's transition among K-12, the community colleges, and the four-year higher education institutions;
- Governor's proposal includes funding for two pilot programs (\$100,000) to provide baccalaureate degree courses on community college campuses that are geographically isolated from four-year institutions.

No additional dollars are proposed to augment funding for Non-Credit Instruction.

Proposition 98 "Split." General Fund Proposition 98 support for community colleges is proposed to increase by a total of 11.6 percent over the current year, thereby increasing the community colleges "share" of Proposition 98 from the current-year (Budget Act) level of 10.46 percent to 10.79 percent in 2006-07. In total, community colleges would receive \$5.8 billion in Proposition 98 support under the Governor's proposal, which represents an increase of approximately \$606 million. Total support for the community colleges is proposed to exceed \$6.4 billion (from all funding sources).

Capital Outlay. The capital outlay portion of the Community Colleges budget includes \$764.4 million in funding (from all sources) to start 58 new projects and continue existing projects. Of this amount, \$491.7 million would be derived from the Governor's newly proposed GO Bond Measure; \$172.6 million is remaining from the 2004 Higher Education GO Bond; \$65.2 million is remaining from the 2002 Higher Education GO Bond; \$4.4 million would come from lease-revenue bonds; and \$30.6 million are left from the 1998 Higher Education GO Bond.

7980 Student Aid Commission

The Student Aid Commission (SAC) administers federal and state student financial aid programs including grants and work study for postsecondary students attending California educational institutions. EdFUND, a nonprofit auxiliary of the SAC, administers a variety of federally-backed student loan programs for both California and out-of-state students. The SAC provides leadership on financial aid issues and makes policy recommendations concerning student financial aid programs. In addition, the SAC compiles information on student financial aid issues, evaluates financial aid programs compared to the needs of the state's student population, and provides financial aid information to students, parents, and California's education community.

Background. In 2000, the Legislature passed and the Governor signed into law, SB 1644 (Chapter 403, Statutes of 2000) which dramatically expanded the scope of the Cal Grant program

and re-tooled the eligibility criteria to ensure that all financially needy and academically meritorious students are guaranteed a grant to attend college. Under the new Cal Grant Entitlement Program, all graduating high school students who meet specified grade point average (GPA) and income requirements are guaranteed a state grant for up to four years. Cal Grant awards generally cover the cost of fees at public colleges and are worth between \$5,250 and \$9,708 at private colleges and universities. In addition, the Cal Grant B, which is provided to students with exceptional financial need, includes a living allowance of approximately \$1,551 per year.

Under current law, in order to be eligible for a Cal Grant A award, a student must have a minimum GPA of 3.0 (“B” average) and must not exceed the family income limit, which in the budget year, will be approximately \$72,300 for a family of four or \$83,600 for a family of six or more. Students with GPAs under 3.0, but higher than a 2.0 (“C” average), are eligible for a Cal Grant “B” award provided their annual family income does not exceed \$38,000 for a family of four. In addition, community college students who meet specified GPA and income requirements and transfer to a four-year college or university prior to age 24 years, are also eligible to receive an award. Students who did not qualify for the Cal Grant Entitlement Program (either due to age, GPA, or income requirements) have a “second chance” to receive a Cal Grant and are eligible to compete for a block of 22,500 annual awards, provided they are financially and academically eligible. Of the 22,500 awards, 11,250 are reserved specifically for community college students.

The Student Aid Commission estimates that the total number of Cal Grants awards will reach approximately 195,850 in the 2006-07 fiscal year.

2006-07 Budget Changes. As part of his 2006-07 budget, the Governor proposes to maintain eligibility for, and award levels within, the Cal Grant program, with the following exception:

Private College Student Grant Amount. The Governor proposes to augment the Cal Grant program by \$11.9 million in order to increase the grant amount for students attending private and independent colleges. Under the Governor's proposal, the grant would increase by \$1,386 annually (from the current maximum level of \$8,322 up to \$9,708). This change brings the maximum Cal Grant back to its highest level (which occurred in the 2003-04 fiscal year).

Other Budget Adjustments.

The Governor proposes several budgetary changes in the Assumption Program of Loans for Education (APLE) including (1) an additional \$6.8 million to fund the increase in loan assumptions coming due; (2) the authorization of 8,000 APLE warrants annually with an earmark of 600 awards to be set-aside for students participating in the Governor's Math and Science Teacher Initiative at UC and CSU; and (3) the authorization of 100 new National Guard APLE awards in order to provide new recruits with an incentive to participate in the National Guard.

Using dollars from EdFUND's Student Loan Operating Fund (SLOF), the Governor proposes to continue shifting \$146.5 million worth of Cal Grant expenditures from the General Fund to the SLOF in order to continue saving a like-amount of General Fund. This \$146.5 million amount

represents a decrease of \$51 million from EdFUND, which is proposed to be backfilled by the General Fund in the budget year. The state began using EdFUND resources to help finance the Cal Grant program several years ago when General Fund revenues failed to meet expectations and the SLOF contained a surplus. The impact of this shift on EdFUND's operations in the coming years is unclear.

6445 California Institute for Regenerative Medicine (CIRM)

Established pursuant to Proposition 71 as passed by the voters in 2004, the California Institute for Regenerative Medicine (CIRM) will administer the issuance of \$3 billion in bond proceeds authorized for stem-cell research and assure that the bond funds are used pursuant to the intent of the voters. Proposition 71 created an Independent Citizen's Oversight Committee as CIRM's governing body. The Citizen's Oversight Committee is responsible for the daily operations of the CIRM and appoints members to the advisory groups charged with developing and maintaining accountability standards, reviewing grant bids, and constructing bond-funded research facilities.

For 2006-07, the CIRM proposes to expend \$309.3 million of continuously-appropriated bond proceeds (*Health and Safety Code*, Section 125291.20) derived from Proposition 71. Included in this amount is the repayment of a \$3 million General Fund loan provided to CIRM for start-up costs as part of the current-year Budget (*Health and Safety Code*, Section 125290.70).